

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Liberty Township</b>	County <b>Wexford</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>5/3/06</b>	Date Accountant Report Submitted to State: <b>July 11, 2006</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

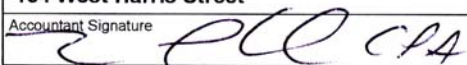
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter and Bishop, P.C.</b>			
Street Address <b>134 West Harris Street</b>		City <b>Cadillac</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49601</b>	Date <b>6/16/06</b>

**LIBERTY TOWNSHIP, WEXFORD COUNTY**

**MANTON, MICHIGAN**

**MARCH 31, 2006**

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MARCH 31, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditors' Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-viii
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures and Changes in Fund Balance	5
Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balances to the Statement of Activities	6
Fiduciary Fund	
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8-15
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Funds	16
<b>Financial Statements of Individual Funds</b>	
<b>Major Governmental Funds</b>	
<u>General Fund</u>	
Balance Sheet	17
Schedule of Revenues, Expenditures and Changes In Fund Balance - Budget and Actual	18
<b>Agency Funds</b>	
<u>Current Tax Collection Fund</u>	
Statement of Changes in Assets and Liabilities	19
<b>Other Information</b>	
Statement of 2005 Tax Roll	20
Letter of Comments and Recommendations	21-22
Letter of Reportable Conditions	23

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

May 3, 2006

**INDEPENDENT AUDITORS' REPORT**

To the Township Board  
Liberty Township  
Wexford County  
Manton, Michigan

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Township, Wexford County, Manton, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Township, Wexford County, Manton, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Liberty Township, Wexford County, Manton, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Liberty Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Liberty Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$291,552. Of this amount, \$289,523 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$290,212. About 99.76% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Liberty Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Proprietary Funds*** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

time. The Net Assets of the Township are \$291,552 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

**Liberty Township**  
**Net Assets as of March 31, 2006**

	<u><b>Governmental Activities</b></u>
<b>Assets</b>	
Current Assets	\$ 291,031
Non Current Assets	
Capital Assets	\$ 15,625
Less: Accumulated Depreciation	<u>(14,285)</u>
Total Non Current Assets	\$ 1,340
<b>Total Assets</b>	<u><u>\$ 292,371</u></u>
<b>Liabilities</b>	
Current Liabilities	\$ 819
<b>Net Assets</b>	
Invested in Capital Assets	1,340
Restricted	689
Unrestricted	<u>289,523</u>
<b>Total Net Assets</b>	<u><u>\$ 291,552</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 292,371</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township is not responsible for any long-term debt as of March 31, 2006. Other liabilities are minimal as of March 31, 2006.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$24,095 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.



LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Liberty Township**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2006**

	<u><b>Governmental Activities</b></u>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 3,049
Capital Grants and Contributions	4,755
<b>General Revenues</b>	
Taxes	25,550
State Shared Revenue	58,751
Unrestricted Investment Earnings	7,294
Other	<u>2,075</u>
<b>Total Revenues</b>	\$ <u>101,474</u>
<b><u>Expenses</u></b>	
Legislative	\$ 7,944
General Government	44,124
Public Safety	15,316
Public Works	2,832
Other Functions	<u>7,163</u>
<b>Total Expenses</b>	<u>77,379</u>
Changes in Net Assets	24,095
NET ASSETS – Beginning of Year	<u>267,457</u>
NET ASSETS – End of Year	\$ <u><u>291,552</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$24,095 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

A significant portion of the revenue for all governmental activities of Liberty Township comes from property taxes and state shared revenue. The Township levied 0.8874 mills for operating purposes.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general governmental expenses that total 57.02% of total expenses. The Township spent \$44,124 in fiscal year 2006 on General Governmental expenses. Public Safety represented the next largest expense at \$15,316, or 19.79% of total expenses. Expenses for salaries and contracted services represent a large portion of the General Governmental expenses at \$28,117. Depreciation expense added another \$670.

**Business-Type Activities**

The Township does not maintain any Business-Type Activities.

**Financial Analysis of the Government's Funds**

***Governmental Funds*** The focus of Liberty Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Liberty Township's governmental funds reported combined ending fund balances of \$290,212. Approximately 99.76%, or \$289,523 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for road maintenance must be used for expenditures that relate to road maintenance.

**General Fund** – The General Fund increased its fund balance by \$24,765 which brings the fund balance to \$290,212. Of the \$290,212, \$289,523 of the General Fund's fund balance is unreserved. All of the General Fund's functions ended the year with expenditures below budgeted amounts.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental and business-type activities as of March 31, 2006 amounted to \$1,340 net of accumulated depreciation. There was no change in the Township's investment in capital assets for the current fiscal year, except to record \$670 of depreciation expense.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

**Liberty Township**  
**Capital Assets as of March 31, 2006**

		<b>Governmental Activities</b>
Building Improvements	\$	8,925
Machinery and Equipment		6,700
		<hr/> 15,625
Less Accumulated Depreciation		<hr/> (14,285)
<b>Net Capital Assets</b>	<b>\$</b>	<b><hr/><hr/>1,340</b>

There were no major capital asset events during the current fiscal year.

**Long-Term Debt.** Liberty Township has no obligation for any long-term debt as of March 31, 2006.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2005-06 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Liberty Township at 7478 N. 41 Road, Manton, MI 49663.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

STATEMENT OF NET ASSETS  
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 255,681
Due from External Parties	17,824
Due from Other Governments	<u>17,526</u>
Total Current Assets	<u>291,031</u>
<u>CAPITAL ASSETS</u>	
Building Improvements	8,925
Machinery and Equipment	<u>6,700</u>
	15,625
Less Accumulated Depreciation	<u>(14,285)</u>
Net Capital Assets	<u>1,340</u>
TOTAL ASSETS	<u>292,371</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	726
Payroll Taxes and Withholdings	<u>93</u>
Total Current Liabilities	<u>819</u>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	1,340
Restricted	689
Unrestricted	<u>289,523</u>
TOTAL NET ASSETS	<u><u>\$ 291,552</u></u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGES IN NET ASSETS TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 7,944	\$ 0	\$ 0	\$ 0	\$ (7,944)
General Government	44,124	3,049	0	4,755	(36,320)
Public Safety	15,316	0	0	0	(15,316)
Public Works	2,832	0	0	0	(2,832)
Other Functions	7,163	0	0	0	(7,163)
Total Governmental Activities	\$ 77,379	\$ 3,049	\$ 0	\$ 4,755	\$ (69,575)
<u>GENERAL REVENUES</u>					
					25,550
					58,751
					7,294
					2,075
					93,670
					24,095
					267,457
					\$ 291,552

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET  
MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 255,681
Due from External Parties	17,824
Due from Other Governments	17,526
Total Assets	<u>291,031</u>
<u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 726
Payroll Taxes and Withholdings	93
Total Liabilities	<u>819</u>
<u>FUND BALANCE</u>	
Reserved for:	
Telecommunications Right of Way Maintenance	689
Unreserved	
Undesignated	289,523
Total Fund Balance	<u>290,212</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 291,031</u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006

Total Fund Balances for Governmental Funds	\$ 290,212
--	------------

Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Building Improvements	8,925	
Machinery and Equipment	6,700	
Accumulated Depreciation	(14,285)	1,340

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 291,552

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY

MANTON, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Taxes	\$ 25,550
State Grants	63,506
Charges for Services	3,049
Interest and Rents	7,294
Other Revenues	2,075
	<hr/>
Total Revenues	\$ 101,474
<u>EXPENDITURES</u>	
Legislative	\$ 7,944
General Government	43,454
Public Safety	15,316
Public Works	2,832
Other Functions	7,163
	<hr/>
Total Expenditures	\$ 76,709
	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	\$ 24,765
	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	265,447
	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 290,212
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.



LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 24,765
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	<u>(670)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 24,095</u></u>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS AND LIABILITIES  
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$       58,865
	<hr/>
<u>LIABILITIES</u>	
Due to General Fund	\$       17,824
Due to Other Governments	<hr/> 41,041
	<hr/>
TOTAL LIABILITIES	\$       58,865
	<hr/>

The accompanying notes are an integral part of the financial statements.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Liberty Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Liberty Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, Liberty Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township has authorized the Township Treasurer to invest in bank savings accounts, bank certificates of deposit and bank money market accounts. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

February 28. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Liberty Township totaled \$16,433,709, on which ad valorem taxes levied consisted of .8874 mills for Liberty Township operating purposes. The levy raised approximately \$14,574 for operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed when acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land improvements	20
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment and Furniture	5-10

Liberty Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 26, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are owned by the Township's funds. At year-end, the carrying amount of the Township's deposits was \$298,596 and the bank balance was \$325,548. Of the bank balance, \$303,691 was covered by Federal depository insurance and \$21,857 was uninsured and uncollateralized.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; investing operating funds primarily in certificates of deposit and money market funds, in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006 \$21,857 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* At year end, the Township held no investments.

**B. Receivables**

As of year end, there are no receivables for the government's major fund.

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.



LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Building Improvements	\$ 8,925	\$ 0	\$ 0	\$ 8,925
Machinery and equipment	6,700	0	0	6,700
Total capital assets, being depreciated	15,625	0	0	15,625
Less accumulated depreciation for:				
Building Improvements	8,925	0	0	8,925
Machinery and equipment	4,690	670	0	5,360
Total accumulated depreciation	13,615	670	0	14,285
Governmental activities capital assets, net	\$ 2,010	\$ (670)	\$ 0	\$ 1,340

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 670
--------------------	--------

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006 that are anticipated to meet the Township's capitalization threshold of \$5,000.

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>Fund</u>	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
General Fund	\$ 17,824	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	17,824
	\$ 17,824	\$ 17,824

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2006

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

**E. Long-Term Debt**

At March 31, 2006, the Township was not obligated for any long-term debt.

**F. Fund Balance Reserves**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balance in the amount of \$689 for Telecommunications Right of Way Maintenance.

**G. Fire Protection Contract**

The Township entered into an agreement with the City of Manton to provide the Township with fire protection services. The agreement calls for the Township to pay the City \$13,298 for the fiscal year. In addition, the agreement calls for payments to be made by the Township for each fire run and for any overtime charges incurred. The total cost paid by the Township for the 2005-2006 fiscal year was \$15,316.

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Commitment**

The Township has entered into an agreement with the Wexford County Road Commission to upgrade approximately 900 feet of seasonal 37-3/4 Road to gravel road standard at an estimated cost not to exceed \$10,760. The Township has expended \$2,611 to date with the remainder of the project to complete in 2006.

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>				
Taxes	\$ 30,000	\$ 30,000	\$ 25,550	\$ (4,450)
State Grants	60,000	60,000	63,506	3,506
Charges for Services	3,000	3,000	3,049	49
Interest and Rents	5,000	5,400	7,294	1,894
Other Revenues	2,000	2,000	2,075	75
Total Revenues	100,000	100,400	101,474	1,074
<u>EXPENDITURES</u>				
Legislative				
Township Board	12,000	12,000	7,944	4,056
General Government				
Supervisor	6,500	6,500	5,800	700
Election	150	550	5,186	(4,636)
Assessor	6,500	6,500	5,228	1,272
Clerk	7,000	7,000	6,359	641
Board of Review	2,500	2,500	1,314	1,186
Treasurer	9,500	9,500	8,768	732
Building and Grounds	6,000	6,000	5,309	691
Cemetery	6,000	6,000	5,490	510
Public Safety				
Fire Department	18,000	18,000	15,316	2,684
Public Works	52,250	52,250	2,832	49,418
Other Functions	10,500	10,500	7,163	3,337
Total Expenditures	136,900	137,300	76,709	60,591
Net Change in Fund Balance	(36,900)	(36,900)	24,765	61,665
<u>FUND BALANCE</u> - Beginning of Year	265,447	265,447	265,447	0
<u>FUND BALANCE</u> - End of Year	\$ 228,547	\$ 228,547	\$ 290,212	\$ 61,665

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

GENERAL FUND  
BALANCE SHEET

MARCH 31, 2006

ASSETS

Cash	
Checking	\$ 110,013
Savings	1,628
Money Market Account	17,721
Certificates of Deposits	126,319
Due from Other Funds	17,824
Due from Other Governments	17,526
	<hr/>
TOTAL ASSETS	<u>\$ 291,031</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 726
Payroll Withholdings	93
	<hr/>

Total Liabilities	<u>\$ 819</u>
-------------------	---------------

FUND BALANCE

Balance	
Reserved for Telecommunications Right of Way Maintenance	\$ 689
Unreserved	289,523
	<hr/>

Total Fund Balance	<u>\$ 290,212</u>
--------------------	-------------------

TOTAL LIABILITIES AND EQUITY	<u><u>\$ 291,031</u></u>
------------------------------	--------------------------

LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

	BUDGET		ACTUAL
	ORIGINAL	FINAL	
<u>REVENUES</u>			
Taxes	\$ 30,000	\$ 30,000	\$ 25,550
State Grants	60,000	60,000	63,506
Charges for Services	3,000	3,000	3,049
Interest and Rents	5,000	5,400	7,294
Other Revenues	2,000	2,000	2,075
Total Revenues	\$ 100,000	\$ 100,400	\$ 101,474
<u>EXPENDITURES</u>			
Legislative			
Township Board	\$ 12,000	\$ 12,000	\$ 7,944
General Government			
Supervisor	6,500	6,500	5,800
Election	150	550	5,186
Assessor	6,500	6,500	5,228
Clerk	7,000	7,000	6,359
Board of Review	2,500	2,500	1,314
Treasurer	9,500	9,500	8,768
Building and Grounds	6,000	6,000	5,309
Cemetery	6,000	6,000	5,490
Public Safety			
Fire Department	18,000	18,000	15,316
Public Works	52,250	52,250	2,832
Other Functions	10,500	10,500	7,163
Total Disbursements	\$ 136,900	\$ 137,300	\$ 76,709
Excess (Deficiency) of Revenues Over Expenditures	\$ (36,900)	\$ (36,900)	\$ 24,765
<u>FUND BALANCE - Beginning of Year</u>	265,447	265,447	265,447
<u>FUND BALANCE - End of Year</u>	\$ 228,547	\$ 228,547	\$ 290,212



LIBERTY TOWNSHIP, WEXFORD COUNTY  
MANTON, MICHIGAN

STATEMENT OF 2005 TAX ROLL  
MARCH 31, 2006

TAXES ASSESSED

County			
Operating	\$	132,501	
County Wide Transit Authority		6,482	
Library		11,175	
Council on Aging		16,281	
State Education Tax		98,558	
Township		14,574	
Schools			
Manton Consolidated Schools		195,559	
Intermediate School			
Wexford-Missaukee		<u>97,923</u>	\$ 573,053

TAXES COLLECTED

County			
Operating		111,407	
County Wide Transit Authority		5,303	
Library		9,142	
Council on Aging		13,318	
State Education Tax		88,697	
Township		11,922	
Schools			
Manton Consolidated Schools		156,503	
Intermediate School			
Wexford-Missaukee		<u>80,104</u>	<u>476,396</u>

TAXES RETURNED DELINQUENT

County			
Operating		21,092	
County Wide Transit Authority		1,179	
Library		2,034	
Council on Aging		2,963	
State Education Tax		9,862	
Township		2,652	
Schools			
Manton Consolidated Schools		39,056	
Intermediate School			
Wexford-Missaukee		<u>17,819</u>	<u>\$ 96,657</u>

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

May 3, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board  
Liberty Township  
Wexford County  
Manton, Michigan

During the course of our audit of the financial statements of Liberty Township for the year ended March 31, 2006, we noted the following:

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for governmental financial statements. For the Township these changes were first reported in the March 31, 2006 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that report financial information on a government wide basis and incorporate capital assets, and a provision for depreciation on those assets.

We commend the Township for their diligent efforts and assistance necessary to implement these rather radical changes as required by this new reporting pronouncement.

General Recordkeeping

The accounting records for the year ended March 31, 2006, were found to be in good order and in compliance with the State's uniform accounting system. We commend the clerk and treasurer for a job well done and encourage them to keep up the fine effort.



### Internal Control

While we observed that bills are approved for payment by the Township board, we did not observe evidence of approval for payment on the bills themselves. We suggest that as a method of strengthening internal control the Township consider having a board member indicate approval on the actual source document.

We would like to thank the board for its continued confidence in our firm and to thank the Township clerk and treasurer for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

134 WEST HARRIS STREET  
CADILLAC, MICHIGAN 49601  
231-775-9789  
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.  
1902 - 1990  
JACK H. BAIRD, C.P.A.  
JERRY L. COTTER, C.P.A.  
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.  
ROBERT V. BEATTIE, C.P.A.  
DOUGLAS P. McMULLEN, C.P.A.  
JOHN F. TAYLOR, C.P.A.  
STEVEN C. ARENDS, C.P.A.  
SCOTT A. HUNTER, C.P.A.  
JONATHAN E. DAMHOF, C.P.A.  
MICHAEL D. COOL, C.P.A.

*Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

May 3, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board  
Liberty Township  
Wexford County  
Manton, Michigan

In planning and performing our audit of the financial statements of Liberty Township, Wexford County, Manton, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*